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IN THE MATTER OF THE GENERIC
PROCEEDING CONCERNING
ELECTRIC RESTRUCTURING ISSUES.

Docket Nos. E-00000A-02-0051
E-00000A-01-0630

Comments of Western
Resource Advocates

Western Resource Advocates (WRA) hereby submits its comments on electric restructuring issues as requested by Staff at its November 14, 2008 workshop.

WRA recommends that the Commission not pursue electric restructuring at this time. The potential benefits are relatively small, if they exist at all, the effort required to establish a functioning retail electric market is extensive, and the Commission's policies regarding renewable energy and energy efficiency may be weakened. The following comments provide support for this recommendation.

1. Experience in other states reveals tepid results

Table 1 summarizes findings from studies which comprehensively looked at retail prices across several states plus the findings of a study of competition in Texas. Conclusions about the benefits of retail electric competition are quite mixed. At best, retail electric competition may have reduced prices by 5% to 10%, but most studies found that price reductions relative to regulation did not occur systematically and that, overall, it is not possible to infer that retail electric competition has had a broad downward effect on price.

2. Establishing retail electric competition will be time-consuming and complex.

Arizona's experience with retail electric competition in the 1990s revealed the enormous complexity of setting up a functioning framework for competition. Many issues must be addressed, including: the scope of the legal authority of the Commission, stranded costs (if any remain), rate setting, determination of which services are to be competitively provided, which entities may provide competitive services, the role of incumbent utilities, providers of last resort, transmission and distribution access, maintenance of service quality, and consumer protection.

Table 1. Summary of Experience in Other States

Study*	Methods	Major Findings
Joskow	Econometric analysis of retail electric prices in US states 1970-2003	<ul style="list-style-type: none"> • Retail competition reduced retail residential prices by 5% to 10% at the mean values of the other factors considered • Retail competition reduced industrial prices by about 5%
Taber et al.	Econometric analysis of prices paid by industrial customers in US States 1990-2002	<ul style="list-style-type: none"> • No evidence to support the general expectation that deregulation would result in lower electricity prices • However, there does appear to be a price reduction in ERCOT and possibly in the PJM region in some of the econometric models
Pfeifenberger et al.	Graphical analysis of price trends in restructured and non-restructured states 1986-2006	<ul style="list-style-type: none"> • Rate increases in restructured states have been similar to rate increases in non-restructured states • Temporary restructuring-related rate reductions and rate freezes likely benefited customers while they lasted. • Restructuring has failed to produce the massive benefits expected at the time restructuring was advocated • Facts do not support a conclusion that customers in restructured states actually would have been better off under traditional cost-of-service regulation
Electric Energy Market Competition Task Force	Case studies of IL, MD, MA, NJ, NY, PA, TX	<ul style="list-style-type: none"> • In most profiled states, competition has not developed as expected for all customer classes. • In general, few alternative suppliers currently serve residential customers. Where there are multiple suppliers, prices have not decreased as expected, and the range of new options and services often is limited.
Zarnikau & Adib	Graphical analysis of price trends in Texas and institutional analysis of market	<ul style="list-style-type: none"> • Residential prices increased more in areas with competition than in other areas of TX, probably due to more rapid responses to natural gas price increases by competitive suppliers than occurred at regulated & municipal utilities & cooperatives • Some competitive suppliers went bankrupt • Competitive retailers account for 56% of sales & 34% of customers in areas open to competition
<p>* Citations: Paul Joskow, "Markets for Power in the United States: An Interim Assessment," <i>The Energy Journal</i> 27 (2006): 1-36. John Taber, Duane Chapman, and Tim Mount, "Examining the Effects of Deregulation on Retail Electricity Prices," Department of Applied Economics and Management Working Paper, Cornell University, WP 2005-14, 2006. J.P. Pfeifenberger, G.N. Basheda, and A.C. Schumacher, "Restructuring Revisited," <i>Public Utilities Fortnightly</i>, June 2007: 64-69. Electric Energy Market Competition Task Force, <i>Report to Congress on Competition in Wholesale and Retail Markets for Electric Energy</i>, April 5, 2007. Jay Zarnikau and Parviz Adib, "Will the Texas Market Succeed, Where So Many Others Have Now Failed?" prepared for USAEE/IAEE North American Conference, December 2008, New Orleans.</p>		

Policies adopted by states to protect consumers have had unintended consequences. For example, the Electric Energy Market Competition Task Force¹ found that:

- "States often set the price for the regulated service at a discount below then-existing rates and capped the price for multi-year periods. In some states, these initial discounts sought to approximate anticipated benefits of competition for residential customers. Since then, wholesale prices have increased. More than any other policy, this requirement that distribution utilities

¹ Electric Energy Market Competition Task Force, *Report to Congress on Competition in Wholesale and Retail Markets for Electric Energy*, April 5, 2007.

offer service at low prices unwittingly impeded entry by alternative suppliers to serve retail customers. New entrants cannot compete against a below-market regulated price.” (p. 73)

- *“Most of the supply contracts that were part of the agreements under which they divested generating assets were set to expire at the end of a finite transition period. Many distribution utilities sold or transferred their generation assets to unregulated affiliates when retail competition began. If they offer regulated service, they must purchase supply in wholesale markets. Their former generation assets may be more expensive now than when they were divested. If the utility repurchases these assets at current prices, it is likely to have ‘sold low and bought high.’” (p. 73).*

3. Environmental, energy efficiency, renewable energy, and long term planning objectives will likely be diluted.

In recent years the Commission has made great advances with its renewable energy standard and with expanded energy efficiency programs. In addition, the Commission is considering adoption of new resource planning rules. Experience suggests that these programs and policies could be put in jeopardy if retail electric competition is pursued. The volume of work required to set up and monitor retail electric markets is so large that other Commission activities will, of necessity, have to be reduced or prolonged. Moreover, during Arizona’s previous attempt at retail electric competition, it was argued that regulatory intervention in market outcomes, such as through resource planning, would be unnecessary, and the Commission’s resource planning process was suspended. Retreating on renewable energy policy, energy efficiency programs, environmental progress, and long term planning objectives in the false hope that markets will adequately address environmental, resource supply, and energy efficiency issues is misguided.

Respectfully submitted this 30th day of January 2009.

A handwritten signature in black ink, appearing to be 'DB' with a large loop and a trailing line.

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